

Message Text

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PAGE 01 PARIS 15873 01 OF 02 281644Z

47

ACTION EUR-25

INFO OCT-01 ISO-00 EURE-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 PA-04 PRS-01 USIA-15 FEAE-00 DRC-01

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P R 211509Z JUN 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 0408

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS SECTION 01 OF 02 AMEMBASSY PARIS 15873

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FOLLOW-UP ON NEW ECONOMIC AND SOCIAL MEASURES
BEGINS

REF: PARIS 14374

1. ON JUNE 27, COUNCIL OF MINISTERS APPROVED SUPPLEMENTAL BUDGET (COLLECTIF BUDGETAIRE) FOR 1974, INCORPORATING, WITH A FEW MODIFICATIONS, ECONOMIC AND SOCIAL MEASURES ANNOUNCED ON JUNE 12 AND 19. COLLECTIF PROVIDES FOR 7.388 BILLION FRANCS IN NEW EXPENDITURES (JUNE 19 SOCIAL PROGRAM, CIVIL SERVICE WAGE INCREASES, SUBSIDIES TO NATIONALIZED COMPANIES - OFFSET IN PART BY PROMISED ONE BILLION FRANC CUT IN EXPENDITURES) AND 7.66 BILLION FRANCS IN NEW REVENUES. AFTER TAKING INTO ACCOUNT 3.5 BILLION FRANC DEBT REPAYMENT TO BANK OF FRANCE, ANNOUNCED JUNE 25 AS STEP TOWARDS NEUTRALIZATION OF "INFLATIONARY BONUS" TO GOVERNMENT REVENUES, OVERALL BUDGET SURPLUS FOR YEAR WILL BE
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PAGE 02 PARIS 15873 01 OF 02 281644Z

1.8 BILLION FRANCS. COLLECTIF WILL BE DEBATED AT

SPECIAL SESSION OF PARLIAMENT TO BE HELD JULY 1-10.

2. COLLECTIF INTRODUCED DETAILS AND SLIGHT MODIFICATIONS OF TAX PACKAGE ANNOUNCED JUNE 12:

A. APPLICATION OF PERSONAL INCOME TAX SURCHARGE WILL BEGIN WITH UNIT TAX BILLS (REFTEL, PARA 4A (3)) OF 2,500 FRANCS INSTEAD OF 2,000, AND WILL INCLUDE MECHANISM TO EASE BURDEN ON THOSE JUST INSIDE A HIGHER BRACKET.

B. LIST OF EXTERNAL SIGNS OF WEALTH, WHICH FRENCH INTERNAL REVENUE SERVICE CAN USE AS ALTERNATIVE MEANS OF CALCULATING TAXABLE INCOME IN LIEU OF AMOUNTS ACTUALLY DECLARED HAS BEEN EXPANDED TO INCLUDE MOTORCYCLES WITH MOTORS OF 450 CUBIC CENTIMETERS OR MORE, PLEASURE BOATS OVER 3 TONS, MEMBERSHIP IN GOLF CLUBS AND SHARES IN HUNTING PRESERVES.

C. CORPORATE SURTAXES REMAIN AS ANNOUNCED. ASSUMING PASSAGE OF COLLECTIF ON JULY 10, THEY WILL BE PAYABLE BETWEEN JULY 31 AND AUGUST 15, THUS ENSURING RAPID ECONOMIC EFFECTS OF MOST SIGNIFICANT OF NEW MEASURES (5 BILLION FRANCS ADDITIONAL REVENUE EXPECTED THIS YEAR).

D. ADDITIONAL 5 CENTIME PER LITER TAX ON GASOLINE WILL BE APPLIED JULY 10 INSTEAD OF JULY 1.

3. TO ENFORCE RESTRICTIONS ON THE GROWTH OF CREDIT, MONETARY AUTHORITIES HAVE IMPOSED 100 PERCENT RESERVE REQUIREMENT ON ALL CREDITS GRANTED BY BANKS IN EXCESS OF 4.7 POINT MARGIN OVER ANNOUNCED CEILINGS. BANK LENDING IS GENERALLY BELIEVED TO HAVE EXCEEDED CEILINGS BY 5 TO 10 PERCENTAGE POINTS.

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PAGE 01 PARIS 15873 02 OF 02 281634Z

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STR-08 CEA-02 PA-04 PRS-01 USIA-15 FEAE-00 DRC-01

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P R 211509Z JUN 74

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UNCLAS SECTION 02 OF 02 AMEMBASSY PARIS 15873

4. COUNCIL OF MINISTERS WILL EXAMINE EXPENDITURE CEILINGS FOR 1975 BUDGET ON JULY 24. GOVERNMENT SPOKESMAN ROSSI HAS INDICATED THAT SPENDING WOULD BE ALLOWED TO RISE ONLY 15 PERCENT ABOVE LEVEL OF REVISED 1974 BUDGET. AT PRESENT, MINISTERIAL ESTIMATES FOR 1975 ARE RUNNING AT ABOUT 18-19 PERCENT OVER 1974. THE PRESIDENT THEREFORE ASKED MINISTRIES TO "MAKE A SPECIAL EFFORT AT USING IMAGINATION" TO FIND MEANS OF CUTTING THEIR COSTS.

5. COMMENT: THERE CONTINUES TO BE MUCH SCEPTICISM ABOUT EFFICACITY OF NEW MEASURES IN SOLVING FRANCE'S INFLATION PROBLEM. PUBLIC OPINION POLL RELEASED ON JUNE 27 REPORTED THAT 53 PERCENT OF THOSE ASKED BELIEVED NEW MEASURES INSUFFICIENTLY SEVERE TO HALT INFLATION, AND 72 PERCENT FELT ADDITIONAL MEASURES WOULD BE REQUIRED IN THE FALL. SIMILAR VIEWS HAVE UNCLASSIFIED

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PAGE 02 PARIS 15873 02 OF 02 281634Z

BEEN EXPRESSED TO US THIS WEEK BY WELL-PLACED SOURCES IN THE FINANCE MINISTRY, AS WELL AS IN BANKS, BUSINESS CIRCLES AND OTHER EMBASSIES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, GOVERNMENT BUDGET, INFLATION, CREDIT, FRANC, BANK LOANS, ECONOMIC CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PARIS15873
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740172-0091
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740624/aaaaaukb.tel
Line Count: 162
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: PARIS 14374
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 29 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 AUG 2002 by PhilliRO>; APPROVED <13 JAN 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FOLLOW-UP ON NEW ECONOMIC AND SOCIAL MEASURES BEGINS
TAGS: EFIN, FR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005